

Message Text

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ACTION AID-31

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TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01
IO-13 OES-06 /122 W
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R 160820Z MAR 77
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 9837
INFO AMCONSUL MEDAN
AMCONSUL SURABAYA

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E.O. 11652: N/A
TAGS: EINV, ID
SUBJECT: NEW GOI FOREIGN INVESTMENT REGULATIONS

REF : JAKARTA 3151 PARA 8

1. SUMMARY: THE GOI HAS ISSUED DETAILED NEW REGULATIONS COVERING TYPES OF INVESTMENTS OPEN TO FOREIGNERS AND THE PRIORITY THEY ARE GIVEN. LITTLE IN THE REGULATIONS IS ACUTALLY NEW, BUT THEIR ISSUANCE MAY BE A HOPEFUL SIGN THAT THE GOI HAS BEGUN TO ADDRESS THE PROBLEM OF IMPROVING THE NEGATIVE FOREIGN INVESEMTNE CLIMATE. END SUMMARY.

2. AT HASTILY ARRANGED MARCH 4 GATHERING OF 200-300 BUSINESS-MEN, DIPLOMATS AND GOVERNMENT OFFICIALS, CAPITAL INVESTMENT COORDINATING BOARD (BKPM) CHAIRMAN BARLI HALIM UNVEILED NEW INVESTMENT REGULATIONS (CALLED LIST OF PRIORITIES, BUT MORE COMMONLY KNOWN BY INDONESIAN ACRONYM DSP) WHICH LIST ACCORDING TO PRIORITY 831 SPECIFIC INDUSTRIES. HALIM SAID THE NEW SCHEME, WHICH DIVIDES BOTH DOMESTIC AND FOREIGN INVESTMENTS INTO PRIORITY, WITH FACILITY, WITHOUT FACILITY,
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AND CLOSED CATEGORIES, WAS AIMED AT SIMPLIFYING INVESTMENT PROCEDURES BY OFFERING READY GUIDANCE TO OFFICIALS AS SELL AS TO POTENTIAL INVESTORS. INVESTMENTS IN THE PRIORITY CATEGORY ARE ELIGIBLE TO RECEIVE ALL GOI INCENTIVES TO INVEST (WHICH HAS NOT BEEN CHANGED FROM THOSE PREVIOUSLY IN EFFECT); INVESTMENTS WITH FACILITIES RECEIVE MOST OF THE SAME INCENTIVES EXCEPT THAT IN PLACE

OF A TAX HOLIDAY AN INVESTMENT ALLOWANCE OF FIVE PERCENT PER ANNUM IS GRANTED; THE LATTER TWO CATEGORIES ARE SELF-EXPLANATORY.

3. DETERMINATION OF WHICH CATEGORY INTO WHICH AN INDUSTRY IS PLACED IS BASED ON 15 FACTORS, INCLUDING PROMOTION OF EXPORTS; FOREIGN EXCHANGE SAVINGS; USE OF LOCAL RAW MATERIALS; NEW TECHNOLOGY; INCREASED VALUE ADDED; AND PROTECTION OF NATIONAL ENTERPRISES. FOREIGN CAPITAL INVESTMENT IS IN PRINCIPLE OPEN IN THOSE FIELDS WHICH CANNOT YET BE TAKEN ON BY DOMESTIC BUSINESSMEN DUE TO LACK OF CAPITAL, TECHNOLOGY OR MANAGEMENT. IN FIELDS IN WHICH DOMESTIC BUSINESS HAS THE CAPABILITY BUT HAS NOT YET FULLY EXERCISED IT, FOREIGN INVESTMENT MAY ALSO BE WELCOME, BUT GENERALLY AT A LOWER PRIORITY THAN DOMESTIC INVESTMENT. THE KINDS OF ACTIVITIES OPEN TO FOREIGN INVESTMENT INCLUDE MANUFACTURING OF RAW MATERIALS AND GOODS REQUIRING FURTHER PROCESSING; MANUFACTURING OF SEMI-FINISHED GOODS WITH HIGH TECHNOLOGY, SKILLS AND CAPITAL; MANUFACTURE FOR EXPORT; HIGH RISK INVESTMENT; EMPLOYMENT CREATING INVESTMENT.

4. FORTY-FOUR PERCENT OF THE 831 INDUSTRIES ARE NOMINALLY CLOSED TO NEW FOREIGN INVESTMENT OR EXPANSION OF EXISTING INVESTMENT, BUT BECAUSE OF THE MANY QUALIFICATIONS(CLOSED IN JAVA, OPEN IN THE OUTER ISLANDS; OPEN IF OUTPUT TOTALLY EXPORTED, OTHERWISE CLOSED, ETC.) THIS FIGURE SHOULD NOT BE TAKEN TOO LITERALLY. THE GOI DID NOT USE THE OCCASION OF ISSUANCE OF NEW REGULATIONS LIMITED OFFICIAL USE

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TO CLOSE TO NEW FOREIGN INVESTMENT LARGE NUMBERS OF INDUSTRIES PREVIOUSLY OPEN; THE NUMBER CLOSED TO EXPATRIATES IS APPARENTLY MUCH THE SAME AS PREVIOUSLY, THE ONLY DIFFERENCE BEING THAT THE LIST OF CLOSED INDUSTRIES HAS NOW BEEN MADE PUBLIC. THE GOI LONG AGO CLOSED DEFENSE, TRADING, PUBLIC UTILITIES AND COMMUNICATIONS TO FOREIGN INVESTMENT AND HAD PROGRESSIVELY BEEN CLOSING THOSE SECTORS REACHING THE "SATURATION POINT." THE LATTER INCLUDES FOOD, TEXTILES AND A VARIETY OF OTHER CONSUMER PRODUCTS, LIGHT INDUSTRY, CONSTRUCTION (EXCEPT FOR GAS AND OIL), AND TRANSPORT AND THESE ARE NOW SPELLED OUT WITH GREATER SPECIFICITY IN THE DSP.

5. HALIM ALSO REVEALED AT THE MEETING, OR HAS OTHERWISE SINCE MADE PUBLIC, THAT THE DSP WOULD BE REVIEWED ONCE A YEAR. FACILITIES PLEDGED TO AN INDUSTRY MAY BE RETAINED EVEN IF THAT INDUSTRY IS SUBSEQUENTLY MOVED TO A LOWER CATEGORY. EXISTING FOREIGN INVESTMENTS THAT HAVE BEEN PLACED IN THE "CLOSED CATEGORY" MAY BE

EXPANDED IF THE "INTENTION IS TO PRODUCE ECONOMICS
OF SCALE."

6. COMMENT: IT IS OUT IMPRESSION THAT LITTLE IN
THE GEGULATIONS IS REALLY NEW. THE FOUR PRIORITY CLASS-
IFICATIONS, THE TYPES OF FOREIGN INVESTMENT WELCOMED,
AS WELL AS THOSE WHICH WERE NOT, HAVE GENERALLY BEEN
KNOWN. HOWEVER, THE NEW REGULATIOS DO PROVIDE A
WELCOME DEGREE OF SPECIFICITY WHICH HAD BEEN LACKING
AND PULL TOGETHER POLICIES WHICH HAD BEEN ISSUED ON AN
AD HOC BASIS. THEY ALSO PROVIDE NEW INSIGHT INTO THE
GOI'S THINKING REGARDING THE PRIORITIES OF DOMESTIC
VIS-A-VIS FOREIGN INVESTMENT. IT IS IMPORTANT ALSO
TO KEEP IN MIND THAT THE CLOSED SECTORS ARE CLOSED
ONLY TO NEW INVESTMENT. EXISTING FOREIGN INVESTMENTS
ARE NOT BEING THREATENED IN THESE REGULATIONS WITH
INDONESIANIZATION; THE GUT ISSUE OF INDONESIAN MAJORITY
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CONTROL IS NOT TOUCHED UPON. THE MOST POSITIVE ASPECT
OF THIS NEW SCHEME IN OUR ESTIMATION, IS THAT IT RE-
PRESENTS AN EFFORT ON THE PART OF THE GOI (THE PRIORITIES
WERE THRASHED OUT OVER MANY MONTHS BY AN INTERMINISTERIAL
COMMITTEE) TO IMPROVE THE SAGGING FOREIGN INVESEMTNT
CLIMATE. THE GOI HAS PROFESSED AWRENESS THAT STEPS
MUST BE TAKEN IF FOREIGN INVESTMENT IS ONCE AGAIN TO BE
ATTRACTED TO INDONESIA, BUT UNTIL NOW HAD TAKEN LITTLE
OR NO ACTION. AS A FINAL NOTE, A BKPM OFFICIAL HAS CON-
FIRMED OUT SUSPICION THAT, DESPITE THE APPARENT RIGIDITY
OF THE NEW CODE, GOI OFFICIALS WILL RETAIN A SENSE OF
FLEXIBILITY AND WITH REGARD TO A WELL-CONCEIVED PROJECT
THE POSSIBILITY OF NEGOTIATION WILL CONTINUE TO EXIST.
END COMMENT.

7. COPIES O DSP WILL BE SENT UNDER COVER OF AIRGAM
PROVIDING FUTHTER ANALYSIS.
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Message Attributes

Automatic Decaptioning: X
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Current Classification: UNCLASSIFIED
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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